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State of North Carolina

Utilities Commission

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August 19, 1998

Honorable Magalie Roman Salas
Secretary
Office of the Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

Re: The North Carolina Utilities Commission's Forward-Looking Economic Cost Studies
on Reconsideration filed in compliance with CC Docket No. 97-160 and 96-45

Dear Secretary Salas:

With respect to the above subject matter, enclosed are WordPerfect documents and Excel spreadsheets representing the forward-looking economic cost (FLEC) studies proposed on Reconsideration by the North Carolina Utilities Commission. On July 2, 1998, the North Carolina Utilities Commission issued its Order on Reconsideration in its FLEC docket. The North Carolina Utilities Commission revised decisions on the following issues:

- (1) Depreciation;
- (2) Structure Sharing; and
- (3) Cable Sizing Factor input for distribution cable for Carolina Telephone and Telegraph Company and Central Telephone Company.

The North Carolina Utilities Commission is re-filing its documents as required in the FCC's Public Notice DA 98-217 released February 27, 1998.

The following ten, 3.5", **REVISED** diskettes are included:

1. FLEC Study for BellSouth Telecommunications, Inc. (BellSouth):

Disk 1 of 1 contains the **REVISED** input and output files of the study in Excel and Comma Separated Variable (CSV) and the **REVISED** text document in

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WordPerfect 6.1, as included in the following files:

- (a) ncorde~2.xls
- (b) ncorde~1.xls
- (c) ncordr~1.csv
- (d) revtbell.wpd (**REVISED** text document in WordPerfect 6.1)

2. FLEC Study for Carolina Telephone and Telegraph Company (Carolina):

Disk 1 of 3 contains the **REVISED** output reports and the inputs of the study in Excel and CSV, as included in the following files:

- (a) cttout.xls
- (b) manual.csv

Disk 2 of 3 contains the **REVISED** inputs files and access lines by wire center, as included in the following files:

- (a) ctinput.xls
- (b) ctlines.csv

Disk 3 of 3 contains the **REVISED** lines for each wire center and the text document in WordPerfect 6.1, as included in the following files:

- (a) ctlines.wp
- (b) ctlines.doc
- (c) revttc&c.wpd (**REVISED** text document in WordPerfect 6.1)

3. FLEC Study for Central Telephone Company (Central):

Disk 1 of 3 contains the **REVISED** output reports and the inputs of the study in Excel and CSV, as included in the following files:

- (a) centout.xls
- (b) manual.csv

Disk 2 of 3 contains the **REVISED** inputs files and access lines by wire center, as included in the following files:

- (a) centli~1.csv
- (b) centin~1.xls

Disk 3 of 3 contains the **REVISED** lines for each wire center and the text

document in WordPerfect 6.1, as included in the following files:

- (a) centli~1.doc
- (b) centli~1.wp
- (c) revttc&c.wpd (**REVISED** text document in WordPerfect 6.1)

4. FLEC Study for GTE South, Incorporated (GTE):

Disk 1 of 2 contains the **REVISED** input file of the study in Excel, as included in the following file:

- (a) inputnc.xls

Disk 2 of 2 contains the **REVISED** output files of the study in Excel and the text document in WordPerfect 6.1, as included in the following files:

- (a) reportnc.xls
- (b) inputnc.csv
- (c) revtgte.wpd (**REVISED** text document in WordPerfect 6.1)

Additionally, enclosed is a hard copy of the North Carolina Utilities Commission's Order on Reconsideration issued in Docket No. P-100, Sub 133b on July 2, 1996. The Order is also included on a 3.5" diskette labeled "N.C. FLEC Order on Reconsideration" in WordPerfect 6.1.

Thank you for your consideration of the Commission's FLEC studies adopted on reconsideration for BellSouth, Carolina/Central, and GTE.

Sincerely,

Jo Anne Sanford by BCS

Jo Anne Sanford, Chair

Enclosures: Ten 3.5" diskettes

Hard copy of Commission's Order on Reconsideration

cc: Sheryl Todd with ten 3.5" diskettes and hard copy of Commission's Order on Reconsideration
Geneva Thigpen with hard copy of revised text documents

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**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. P-100, SUB 133b

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

RECEIVED

AUG 27 1998

In the Matter of
Establishment of Universal Support
Mechanisms Pursuant to Section 254
of the Telecommunications Act of 1996

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RECONSIDERATION

BY THE COMMISSION: On April 20, 1998, the Commission issued an Order Adopting Forward-Looking Economic Cost (FLEC) Model and Inputs. On April 30, 1998, BellSouth Telecommunications, Inc. (BellSouth), Carolina Telephone and Telegraph Company (Carolina)/Central Telephone Company (Central), and GTE South, Inc. (GTE) (jointly referred to as the incumbent local exchange companies or ILECs) filed their revised FLEC studies as required by the Commission Order.

On May 7, 1998, BellSouth filed its Motion for Reconsideration with the Commission. On May 8, 1998, the Public Staff filed its Comments on the revised FLEC studies. Also on May 8, 1998, AT&T Communications of the Southern States, Inc. (AT&T) filed its Response to BellSouth's Revised Benchmark Cost Proxy Model (BCPM) 3.1 Cost Study which the Commission will treat as a Motion for Reconsideration.

The Commission issued an Order on May 13, 1998 requiring the ILECs to revise their cost studies to reflect the recommendations of the Public Staff as set forth in its May 8, 1998 Comments. On May 14, 1998, GTE filed its Motion for Reconsideration. The Public Staff filed further Comments on May 15, 1998. Carolina/Central, on May 18, 1998, filed their Motion for Reconsideration. The Commission issued an Order on May 19, 1998, soliciting comments and reply comments on the four Motions for Reconsideration that had been filed with the Commission. Comments were filed by the Attorney General, AT&T, BellSouth, the North Carolina Cable Telecommunications Association (NCCTA), and the Public Staff. Reply comments were filed by AT&T and Carolina/Central.

Based upon a careful consideration of the entire record in this proceeding, the Commission now makes the following

FINDINGS OF FACT

1. It is appropriate to deny GTE's Motion for Reconsideration on the issue of expense inputs.

2. It is appropriate to deny GTE's Motion for Reconsideration on the issue of material, installation, and switching.

3. It is appropriate to deny GTE's Motion for Reconsideration on the issue of support ratios.

4. It is appropriate to deny BellSouth's and GTE's Motions for Reconsideration on the issue of structure sharing and require BellSouth and GTE to use the structure sharing percentages proposed by Carolina/Central as inputs into the BCPM 3.1. It is appropriate to grant Carolina/Central's Motion for Reconsideration on the issue of structure sharing.

5. It is appropriate to grant Carolina/Central's Motion for Reconsideration on the issue of the cable sizing factor.

6. It is appropriate to grant AT&T's Motion for Reconsideration and deny GTE's Motion for Reconsideration on the issue of depreciation.

7. It is appropriate to deny GTE's Motion for Reconsideration on the issue of cost of capital.

DISCUSSION OF EVIDENCE AND CONCLUSIONS

FINDING OF FACT NO. 1 - EXPENSE INPUTS

Commission Order: The Commission concluded, in Section 3(b) on page 22 of its Order Adopting FLEC Model and Inputs (hereinafter referred to as Commission Order or FLEC Order) dated April 20, 1998, that the expense input adjustments proposed by the Public Staff were reasonable and appropriate and that GTE should make appropriate revisions to its cost studies as follows:

1. Adjust per line expenses to reflect the number of access lines shown in GTE's 1996 Annual Report (366,794).

2. Adjust GTE's per line amount for General Support expense to reflect the change in investment support.

3. Adjust GTE's per line amount for Services expenses to universal service to reflect the per line expense amount used by Carolina/Central for Services expenses to universal service.

4. Adjust GTE's Poles expense to reflect the Poles expense amount used by Carolina/Central.

5. Adjust GTE's Aerial Fiber Cable expense to reflect the same relationship with GTE's Aerial Copper Cable that exists between Carolina/Central's Aerial Fiber Cable and its Aerial Copper Cable.

6. Adjust GTE's Buried Copper Cable expense input to reflect the same relationship with GTE's Buried Copper Cable that exists between Carolina/Central's Buried Fiber Cable and its Buried Copper Cable.

Motion for Reconsideration:

GTE: In the Commission Order, the Commission adopted the Public Staff's proposal that the number of access lines in service as shown in GTE's 1996 Annual Report (366,794) was the appropriate number of access lines which should be used to obtain the desired per line expense amount. In its Motion for Reconsideration, GTE argued that the Commission's use of 366,794 access lines for calculating per line expenses for GTE overstated the number of access lines and, therefore, understated GTE's per line expenses. GTE contended that the Public Staff's calculation of 325,857 based on access line data for each wire center is the correct number of access lines which should be used for purposes of calculating per line expenses in this docket.

The Commission Order also concluded that certain of the inputs proposed by GTE reflected what appeared to be unreasonable assumptions and adopted the Public Staff's proposal that, given the similarities between the operating conditions of GTE and Carolina/Central, certain expense inputs used by Carolina/Central were reasonable for use in GTE's service area. In its Motion for Reconsideration, GTE contended that it is GTE's cost that must be the basis for calculating the cost of providing service in the Company's serving area in North Carolina and where GTE has provided company-specific inputs, they should be used.

GTE further requested that the Commission reconsider its finding that GTE's cost study included an unreasonably high allocation of Services expenses to universal service. GTE stated that it believes this is in error. GTE argued that the expenses submitted for GTE should be used and, accordingly, the Commission should reconsider its decision with regard to this issue. Use of GTE-specific costs is the only way to ensure that GTE's forward-looking economic costs are calculated correctly, and thereby ensure that the universal service fund is properly sized.

INITIAL COMMENTS

NCCTA: The NCCTA recommended that the Commission deny BellSouth's, GTE's, and Carolina/Central's Motions for Reconsideration in their entirety. The NCCTA argued that the Commission Order reflects careful analysis of a mountain of written and oral evidence and that none of the issues raised by the ILECs in their Motions for

Reconsideration raise new evidence or other matters which were not fully debated during the proceeding.

PUBLIC STAFF: The Public Staff stated that it does not agree with GTE's request that the lower number of access lines in service should be used in the determination of the expense inputs that are calculated on a per line basis. The appropriate number of access lines which should be used to determine the expense inputs that are calculated on a per line basis should be the number reflected in GTE's 1996 Annual Report.

The Public Staff further disagreed with GTE's request for reconsideration of the Commission's finding that certain of its cost study inputs should be replaced with inputs derived from Carolina/Central.

REPLY COMMENTS

No party filed Reply Comments on this issue.

DISCUSSION

GTE argued that it will be unable to recover the universal service expense unless the Commission recalculates GTE's per line expenses using the actual access line data for each wire center of 325,857. GTE stated that the 366,794 access lines in service in North Carolina as shown in GTE's Annual Report can be misleading because it includes approximately 40,000 channel equivalents from nonswitched special access lines. These channel equivalents are not the same as a narrowband loop, and they are not relevant for estimating the per line expense calculations discussed here. Including nonswitched special access lines on a channel equivalent basis artificially increases the count of access lines, thereby decreasing the per line costs. Instead, a count of the "physical lines" should be used. GTE explained that nonswitched special access generally refers to DS1 and DS3 connections between high volume long distance end users and long distance carriers. DS1 and DS3 channels are not used to provide access lines for the provision of plain old telephone service (POTS) and they should not be included in the determination of the number of access lines in this proceeding.

GTE contended that inclusion of these channel equivalents in calculating the per line costs will result, for a number of reasons, in a fundamental unfairness to GTE. First, GTE believes that BellSouth uses total physical lines rather than channel equivalents. In addition, GTE is informed and believes that in the case of Carolina/Central, the number of channel equivalents, even if included, would be *de minimis* compared to total physical access lines. GTE stated that including channel equivalents is particularly inequitable to GTE because of the large number of businesses who purchase DS1 and DS3 service in the Research Triangle Park. Further, GTE contended that including channel equivalents in the calculation of the per line expense has the same effect as simply removing expenses

from universal service categories and reassigning those expenses to DS1 and DS3 services. This is a clear violation of Section 254 of the Telecommunications Act of 1996 (the Act) since the purpose of Section 254 is to remove implicit subsidies from existing tariffed rates. Moreover, even if it were not an implicit subsidy, GTE could not recover these expenses. The price cap plan currently in effect for GTE precludes a price increase sufficient to recover these additional expenses. GTE requested that the Commission use 325,857 as the correct number of access lines for universal service fund purposes.

GTE contended that the Commission's finding that GTE's cost study included an unreasonably high allocation of Services expenses to universal service is in error. GTE stated that it employed a total service long-run incremental cost (TSLRIC) based allocation methodology for a number of expense accounts, while Carolina/Central largely employed a separations based allocation methodology. Although individual account results would reasonably be expected to vary, in this instance the proper inquiry should be whether total operating expenses - and not single account - properly reflect the costs of providing universal service. The overall per line operating expense of \$14.46 for GTE is \$2.15 less than the \$16.61 found appropriate for Carolina/Central, due in large part to the pick-and-choose cost per line approach included in the Order.

The Public Staff stated that it does not agree that the 325,857 access lines found to be appropriate for determining the network design and investment costs should be used for GTE's expenses. Unlike the other ILECs, GTE proposed no adjustments in its cost study to reflect expenses on a forward-looking basis. Instead, GTE used its 1996 expenses as the basis for expense inputs that are calculated on a per line basis. By using the lower access line count to calculate these per line expense inputs, GTE is essentially advocating the use of historical costs to calculate the expense associated with universal service on a forward-looking basis. The Public Staff stated it found this inappropriate. Using a line count of 366,794 and the 1996 expense levels, as provided in the Commission's Order, results in an adjustment of approximately 11% to the affected 1996 expenses to reflect forward-looking efficiencies.

The Public Staff noted GTE's assertions that the proper inquiry should be whether total operating expenses are appropriate rather than expenses in a single account. Moreover, GTE asserts that where it has provided company-specific inputs, they should be used, because they contain implicit subsidies based on actual costs and the Act requires that implicit subsidies be made explicit. In response to these assertions, the Public Staff stated that there is nothing in the Act that guarantees an ILEC recovery of embedded costs or that prohibits a state commission from reviewing an ILEC's costs for reasonableness, either in the aggregate or by specific account, before using them to determine the costs of an efficient provider in the ILEC's service territory. Because the Commission is required to determine the costs of an efficient provider in an ILEC's service territory, the Public Staff believes that the Commission has an obligation to ascertain the reasonableness of the proposed inputs. Comparing GTE's overall per line operating

expense to that found reasonable for the combined operations of Carolina/Central is no more valid than comparing it to BellSouth's, which is \$3.80 lower than GTE's.

The Commission finds no merit in GTE's Motion that would support an amendment to the Commission Order in this regard.

CONCLUSIONS

Based upon the Comments submitted by the Public Staff, the Commission concludes that it is appropriate to deny GTE's Motion for Reconsideration regarding this issue.

FINDING OF FACT NO. 2 - MATERIAL, INSTALLATION, AND SWITCHING

Commission Order on Material and Installation: The Commission concluded, in Section 3(d) on page 26 of the FLEC Order, that North Carolina specific data is the most forward-looking and reasonable, and is thus superior to default inputs. Therefore, the Commission ordered GTE to reflect Carolina/Central's state specific costs for material and installation costs for loop fixed costs, structures (base cost, cost adjustment, and installation cost), and material and installation costs for handholes, manholes, adder, and conduit in GTE's FLEC study.

Commission Order on Switching: The Commission adopted, in Section 3(j) on page 39 of the FLEC Order, the Public Staff's recommendation in this regard. The Commission concluded that Carolina/Central's proposed inputs to the Switching Discount Factor Table should be used by GTE as its inputs to the BCPM 3.1 and that GTE should use the inputs developed by Carolina/Central of 0.0128 for land loading, 0.1479 for building loading, and 0.0476 for the common equipment/power factor.

Motion for Reconsideration:

GTE: GTE stated in its Motion for Reconsideration that the Commission Order requires GTE to use Carolina/Central's costs for material and installation, and switching. GTE stated that GTE's cost must be the basis for calculating the cost of providing service in the Company's serving area in North Carolina and where GTE has provided company-specific inputs, they should be used. GTE argued that one principal purpose of regulation is to ensure that the regulated company is given an opportunity to recover its prudently-incurred investment and operating costs plus a reasonable profit. GTE believes that the use of GTE-specific costs is the only way to ensure that GTE's forward-looking economic costs are calculated correctly.

INITIAL COMMENTS

AT&T: AT&T stated in its initial comments that GTE's request for reconsideration of the decision requiring it to modify outside plant material and installation costs, support ratios, switching inputs, and expenses is nothing more than yet another vehicle for GTE to press its anti-competition, make-whole position. AT&T stated that GTE's Motion provides no evidence or even argument that the input values it proposes reflect the costs of an efficient provider in GTE's North Carolina territory. AT&T believes that GTE's argument that anything less than full recovery of costs and maintenance of historic revenue levels constitutes a breach of the regulatory compact, is without merit. Further, AT&T stated that the Commission's determination that forward-looking economic costs be used to calculate the costs of universal service is neither unjust or unreasonable. For these reasons, AT&T argued that the Commission should deny GTE's Motion as to this issue.

NCCTA: The NCCTA recommended that the Commission deny BellSouth's, GTE's, and Carolina/Central's Motions for Reconsideration in their entirety. The NCCTA argued that the Commission Order reflects careful analysis of a mountain of written and oral evidence and that none of the issues raised by the ILECs in their Motions for Reconsideration raise new evidence or other matters which were not fully debated during the proceeding.

REPLY COMMENTS

No Reply Comments were filed on this issue.

DISCUSSION

GTE simply stated in its Motion for Reconsideration that the Commission ordered GTE to use Carolina/Central's costs for material and installation and switching. GTE argued that where GTE has provided company-specific inputs, they should be used. However, the Commission notes that GTE reflected the BCPM 3.1 default values for both material and installation and switching. Therefore, GTE did not itself propose GTE company-specific data in this proceeding for these items.

CONCLUSIONS

The Commission concludes that it is appropriate to deny GTE's Motion for Reconsideration in this regard.

FINDING OF FACT NO. 3 - SUPPORT RATIOS

Commission Order: The Commission concluded, in Section 3(e) on page 28 of the FLEC Order, that it was appropriate to adopt the Public Staff's recommendation in this regard.

The Commission concluded that the appropriate support ratios for Furniture investment and Office Support investment were as follows:

<u>ILEC</u>	<u>Furniture</u>	<u>Office Support</u>
BellSouth	0.125%	0.281%
Carolina/Central	0.209%	0.576%
GTE	0.209%	0.576%

These approved factors were the same as the ILECs had proposed with the exception of GTE.

Motion for Reconsideration:

GTE: GTE stated in its Motion for Reconsideration that the Commission ordered GTE to use Carolina/Central's inputs for material and installation, support ratios, switching discounts, and certain other expenses in GTE's revised BCPM 3.1 filing. GTE stated that GTE's cost must be the basis for calculating the cost of providing service in the Company's serving area in North Carolina and where GTE has provided company-specific inputs, they should be used. GTE argued that one principal purpose of regulation is to ensure that the regulated company is given an opportunity to recover its prudently-incurred investment and operating costs plus a reasonable profit. GTE believes that the use of GTE-specific costs is the only way to ensure that GTE's forward-looking economic costs are calculated correctly.

INITIAL COMMENTS

AT&T: AT&T stated in its initial comments that GTE's request for reconsideration of the decision requiring it to modify outside plant material and installation costs, support ratios, switching inputs, and expenses is nothing more than yet another vehicle for GTE to press its anti-competition, make-whole position. AT&T stated that GTE's Motion provides no evidence or even argument that the input values it proposes reflect the costs of an efficient provider in GTE's North Carolina territory. AT&T believes that GTE's argument that anything less than full recovery of costs and maintenance of historic revenue levels constitutes a breach of the regulatory compact, is without merit. Further, AT&T stated that the Commission's determination that forward-looking economic costs be used to calculate the costs of universal service is neither unjust or unreasonable. For these reasons, AT&T argued that the Commission should deny GTE's Motion as to this issue.

NCCTA: The NCCTA recommended that the Commission deny BellSouth's, GTE's, and Carolina/Central's Motions for Reconsideration in their entirety. The NCCTA argued that the Commission Order reflects careful analysis of a mountain of written and oral evidence and that none of the issues raised by the ILECs in their Motions for

Reconsideration raise new evidence or other matters which were not fully debated during the proceeding.

PUBLIC STAFF: The Public Staff stated in its initial comments that GTE is requesting that where it has provided company-specific inputs, they should be used because they contain implicit subsidies based on actual costs. The Public Staff remarked that there is nothing in the Act that guarantees an ILEC recovery of embedded costs or that prohibits a state commission from reviewing an ILEC's costs for reasonableness, either in the aggregate or by specific account, before using them to determine the costs of an efficient provider in the ILEC's service territory. The Public Staff did not recommend any changes to the Commission Order in this regard.

REPLY COMMENTS

No party filed Reply Comments on this issue.

DISCUSSION

The Commission Order adopted the Public Staff's recommendation in this regard; i.e., considering the similarities between GTE and Carolina/Central, GTE's support ratios for the calculation of its Furniture and Office Support investments should be the same as those proposed by Carolina/Central which are 0.209% and 0.576%, respectively. The Commission's Order stated:

"...the support ratios proposed by GTE for the Furniture and Office Support investments are substantially higher than those proposed by BellSouth and Carolina/Central: more than six times higher for Furniture investment and more than four times higher for Office Support investment. The Public Staff stated, in its Proposed Order, that it could not rationalize such a disparity and therefore recommended that the support ratios inputs into the BCPM 3.1 for the calculation of GTE's Furniture and Office Support investments should be those proposed by Carolina/Central. . . ."

The Commission finds no evidence or any argument in GTE's Motion that would support an amendment to the Commission Order in this regard. GTE has made no showing that the input values it proposes reflect the costs of an efficient provider in GTE's North Carolina territory. Thus, GTE's support ratio inputs should remain the same as those previously approved in the Commission Order issued on April 20, 1998.

CONCLUSIONS

The Commission concludes that it is appropriate to deny GTE's Motion for Reconsideration in this regard.

FINDING OF FACT NO. 4 - STRUCTURE SHARING

Commission Order: The Commission concluded, in Section 3(f) on page 31 of the FLEC Order, that the ILECs should be required to input structure sharing percentages into their cost models that fall midway between their proposed percentages and the percentages proposed by AT&T/MCI in the Hatfield Model (HM) 5.0.

Motions for Reconsideration:

BELLSOUTH: BellSouth argued in its Motion for Reconsideration that the Commission had no credible record evidence to support the setting of structure sharing percentages in the manner, and at the level, set forth in the Order. BellSouth stated that the ILECs all advocated a percentage of structure sharing input based upon their respective current actual operating experience and that the source of the structure sharing percentages advocated by the ILECs was clear and that the percentages were based on current reality. BellSouth argued that the Hatfield Model included a projected - or hypothetical - future sharing percentage that was based on nothing more than unsupported conjecture. BellSouth asserted that there was no serious evidentiary challenge to the structure supporting percentages advanced by the various ILECs.

Additionally, BellSouth stated that, "BellSouth believes that all parties would readily agree that the opportunities for sharing will not be equal in all parts in the state. In other words, it is highly unlikely that one or more new entrants will duplicate the entire local network. To the contrary, the greatest likelihood is that future, facilities-based competition will develop in the more densely populated areas because, along with access to greater concentration of ILEC revenues, competing carriers can serve those areas with fewer facilities." BellSouth stated that the inescapable fact is that there is simply no record evidence to quantify the amount of increased structure sharing that may occur in a future competitive environment in any area, either densely populated or sparsely populated and that the Commission should amend the FLEC Order to rely upon only credible evidence regarding structure sharing offered in this manner.

CAROLINA/CENTRAL: Carolina/Central stated in their Motion for Reconsideration that the Commission's decision on structure sharing was inappropriate for three reasons: (1) the "split the difference" methodology adopted by the Commission encourages the parties to take extreme positions rather than realistic positions, not only in this proceeding but in future proceedings; (2) the structure sharing inputs proposed by Carolina/Central are generally higher than those of the other participating ILECs, and are based upon projected future opportunities for sharing the cost of constructing cable facilities; and (3) the "split the difference" methodology has a prejudicial impact upon Carolina/Central in that it assigns the highest incidence of structure sharing, and the least cost retention to Carolina/Central (in comparison to BellSouth and GTE), despite the fact that Carolina/Central have a higher cost of service than BellSouth and GTE.

GTE: GTE stated in its Motion for Reconsideration that there is no evidence in the record to support the structure sharing percentages required by the Commission Order. GTE asserted that the percentages used by the ILECs are solidly grounded in actual operating experience and are realistic. GTE stated that the percentages advocated by AT&T and MCI Telecommunications Corporation (MCI) are speculative at best and not grounded in actual experience gained from operating local exchange facilities. GTE argued that the Commission has imposed an impossible objective on GTE and that such objectives are wholly unrealistic and impossible to achieve. Finally, GTE concluded that there is no support in the record for such a conclusion, nor is there any discernible logic to arrive at such a conclusion.

AT&T: AT&T stated in its Motion for Reconsideration and Response to BellSouth's Revised BCPM 3.1 Cost Study that the Commission's Order recognized the widely disparate structure sharing ratios proposed by BellSouth and the other parties. AT&T stated that after careful consideration the Commission concluded that BellSouth should be required to establish structure sharing inputs for their cost models that fall midway between those proposed by BellSouth and those proposed by AT&T in the Hatfield Model 5.0.

INITIAL COMMENTS

AT&T: AT&T asserted in its comments that the ILECs' contention that the Commission's decision was not based on evidence of record relies on a faulty premise - that the ILECs' alleged historic structure sharing levels establish as a matter of fact the levels that efficient providers in a competitive market will achieve. AT&T stated that the record is full of evidence that competition will exert pressure on telecommunications carriers to share structure costs where no such pressure existed before. AT&T asserted that the Commission rightfully rejected the ILECs' proposed values as unreasonable and adopted values it believed better reflected the forward-looking environment. AT&T argued that none of the ILECs' Motions, for all their rhetoric, cite a single transcript, piece of testimony and/or document to support the contention that any ILEC or an efficient newcomer ever would tolerate these levels of sharing in a competitive market.

NCCTA: The NCCTA recommended that the Commission deny BellSouth's, GTE's, and Carolina/Central's Motions for Reconsideration in their entirety. The NCCTA argued that the Commission Order reflects careful analysis of a mountain of written and oral evidence and that none of the issues raised by the ILECs in their Motions for Reconsideration raise new evidence or other matters which were not fully debated during the proceeding. The NCCTA argued that the Commission reasonably concluded in its Order that structure sharing would likely increase with competition.

PUBLIC STAFF: The Public Staff stated that the Commission Order presumes that the ILECs will experience increases in structure sharing in the low density rural areas, as well as the high density urban areas of the state, as argued by BellSouth. The Public Staff stated that it believes that this argument has merit. The Public Staff asserted that unlike other user adjustable inputs, opportunities for structure sharing are largely speculative and depend on variables outside the control of the ILECs, namely, the ability and willingness of electric utilities and cable companies to share both existing and new facilities with the ILECs. The Public Staff concluded that while structure sharing can be expected to increase in some rapidly growing areas, it is not likely to occur in the magnitude assumed by the Commission Order for the foreseeable future.

REPLY COMMENTS

CAROLINA/CENTRAL: Carolina/Central stated in their reply comments that the structure sharing inputs included in the BCPM 3.1 by Carolina/Central are, in some cases, substantially greater than those currently or historically realized by Carolina/Central. Carolina/Central asserted that they have included a generous and reasonable level of structure sharing in developing Model inputs that reflect the possibility of greater structure sharing in the future. Carolina/Central argued that they should not be penalized for including a reasonable estimate of the level of cable construction cost sharing by employing a "split the difference" methodology for all four ILECs in determining the structure sharing inputs for the BCPM 3.1. Carolina/Central stated that AT&T's comments in this matter are flawed because they do not acknowledge the regulatory environment applicable to Carolina/Central. Carolina/Central argued that AT&T disregarded the fact that both Carolina and Central have been under price regulation plans since July 1996. Carolina/Central stated that a price regulation plan is not a cost plus regulation methodology and does not limit the benefits that can be realized from cost reductions. Carolina/Central argued that under price regulation, Carolina/Central have substantial incentives to share construction costs to the maximum degree possible. Finally, Carolina/Central pointed out that the Public Staff agreed with Carolina/Central in its comments on several aspects of structure sharing. Carolina/Central continued to believe that the structure sharing assumptions ordered by the Commission are not indicative of any current or projected operating circumstances that could be realized within the operating area of either company.

DISCUSSION

Several parties raised valid points on this issue. Carolina/Central argued that the structure sharing inputs proposed by Carolina/Central are generally higher than those of the other participating ILECs, and are based upon projected future opportunities for sharing the cost of constructing cable facilities. Carolina/Central did propose structure sharing percentages that were higher than the percentages of BellSouth and GTE. Carolina/Central also argued that the "split the difference" methodology has prejudicial

impact upon Carolina/Central in that it assigns the highest incidence of structure sharing, and the least cost retention to Carolina/Central (in comparison to BellSouth and GTE), despite the fact that Carolina/Central have a higher cost of service than BellSouth and GTE.

BellSouth's assertion that there is simply no record evidence to quantify the amount of increased structure sharing that may occur in a future competitive environment in any area, either densely populated or sparsely populated, is not a valid point. AT&T and MCI presented structure sharing percentages based on their expert projections, just as the ILECs did. No party can predict the future and, therefore, an absolutely correct forward-looking percentage for structure sharing cannot be known.

The Commission notes that BellSouth itself stated in its Motion that "BellSouth believes that all parties would readily agree that the opportunities for sharing will not be equal in all parts in the state." However, BellSouth did not recommend structure sharing percentages that vary based on density (See Appendix A, Page 2).

The Commission notes that while no new evidence was presented on this issue, the parties have made valid points. The Commission believes that there will be increased structure sharing in the future; the problem is determining the most accurate percentages to use in the models. By analyzing the structure sharing percentages used by the parties, Carolina/Central did propose higher amounts than did BellSouth and GTE. Additionally, Carolina/Central proposed structure sharing percentages that recognized that more of the costs would be borne by parties other than the ILEC at higher density zones, as presented in Appendix A, pages 1 through 3. For feeder conduit and distribution conduit, BellSouth recommended 99% at all density zones; GTE recommended 100% at all density zones; and Carolina/Central recommended varying percentages from 100% to 85% based on density zones with 100% at the 0-5 density zone and 85% at the greater than 10,000 density zone. For buried cable (feeder and distribution) the same pattern holds true: BellSouth recommended 100% for buried feeder and 99% for buried distribution at all density zones; GTE recommended 93% for buried feeder and distribution at all density zones; and Carolina/Central recommended varying percentages from 100% to 85% for buried feeder cable and 100% to 80% for buried distribution cable based on density zones with 100% at the 0-5 density zone and 80% at the greater than 10,000 density zone. The Commission believes that it is appropriate to recognize increased sharing of structure costs in areas of higher density. Therefore, the Commission believes that Carolina/Central's recommended structure sharing percentages are more appropriate since they assume that at higher density zones, greater structure sharing will occur.

The Commission believes that it is reasonable to establish structure sharing percentages based on the percentages presented by Carolina/Central. These percentages are reasonable and recognize increased structure sharing at higher density

zones. The Commission believes that these percentages are more reasonable and appropriate to be used in the FLEC studies.

CONCLUSIONS

The Commission concludes that it is appropriate to deny BellSouth's and GTE's Motions for Reconsideration in this regard, and require BellSouth and GTE to use the structure sharing percentages originally proposed by Carolina/Central in their FLEC studies. The Commission also grants Carolina/Central's Motion for Reconsideration in this regard. Therefore, the Commission, through this Order, is amending its FLEC Order issued April 20, 1998, by incorporating a finding that the appropriate structure sharing percentages for BellSouth, Carolina/Central, and GTE are the percentages proposed by Carolina/Central.

FINDING OF FACT NO. 5 - CABLE SIZING FACTORS

Commission Order: The Commission concluded, in Section 3(h) on page 35 of the FLEC Order, that it was appropriate to adopt the Public Staff's recommendation in this regard. The Commission concluded that the appropriate cable sizing factor inputs were as follows:

<u>ILEC</u>	<u>Feeder</u>	<u>Distribution</u>
BellSouth	73.1%	66.7%
Carolina/Central	69%	85%
GTE	69%	65%

These approved factors were the same as the ILECs had proposed with the exception of GTE.

Motion for Reconsideration:

CAROLINA/CENTRAL: Carolina/Central stated in their Motion for Reconsideration that the Commission apparently did not realize that the cable sizing factors are not the sole determinant of the objective cable utilization ratios. Carolina/Central noted that the BCPM uses two user-adjustable inputs to provision the number of distribution cable pairs: (1) distribution pairs per household and (2) cable sizing factors. Carolina/Central requested that the Commission amend its Order to reflect that the appropriate cable sizing factor input for Carolina/Central should be 66% for distribution cable, rather than 85%. The objective of this proposal is to produce a cable utilization ratio for Carolina/Central that is comparable to that of BellSouth and GTE.

INITIAL COMMENTS

AT&T: AT&T stated in its initial comments that Carolina/Central are requesting the Commission to amend its decision and find that an input value higher than 1.4 distribution pairs per household is appropriate. AT&T argued that a higher number is not supported by the evidence in the case and would be inconsistent with residential usage patterns observed in North Carolina. AT&T noted that forward-looking utilization rates should be higher than those in a monopoly environment and that competition produces incentives to manage all costs. Consequently, AT&T asserted that efficient carriers in a competitive market will eliminate excess spare capacity to ensure that the cost of carrying spare capacity will be less than the cost of reinforcing the network, since they, not consumers, will bear the costs of excess spare capacity in a competitive environment. AT&T maintained that without the need to account for these costs through cable sizing factors, the cable sizing factors and utilization rates observed in BCPM should be higher than those observed historically. For these reasons, AT&T argued that the Commission should deny Carolina/Central's Motion as to this issue.

NCCTA: The NCCTA recommended that the Commission deny BellSouth's, GTE's, and Carolina/Central's Motions for Reconsideration in their entirety. The NCCTA argued that the Commission Order reflects careful analysis of a mountain of written and oral evidence and that none of the issues raised by the ILECs in their Motions for Reconsideration raise new evidence or other matters which were not fully debated during the proceeding.

PUBLIC STAFF: The Public Staff stated in its initial comments that Carolina/Central are suggesting that when the Commission adjusted the number of cable pairs per household from 2.0 to 1.4, it should have changed the distribution cable sizing factor from 85% to 66% to achieve a utilization ratio comparable to that for GTE and BellSouth. The Public Staff stated that they believe that Carolina/Central's argument has merit and that there is no basis for a large difference between the utilization ratios of Carolina/Central and those of GTE and BellSouth. The Public Staff advocated that changing the distribution cable sizing factor from 85% to 66% as proposed by Carolina/Central would result in comparable utilization ratios.

REPLY COMMENTS

CAROLINA/CENTRAL: Carolina/Central stated in their reply comments that AT&T's comments completely mischaracterized the relief they were seeking as they did not ask the Commission to reconsider the finding on distribution pairs per household. Instead, Carolina/Central are asking the Commission to reconsider the cable sizing factor for distribution facilities and to adjust the factor from 85% to 66%. Carolina/Central noted that the Public Staff's comments on their Motion for Reconsideration supported their request. Specifically, Carolina/Central stated that the Public Staff commented that there

is no basis for the large difference in the cable utilization ratios ordered for Carolina/Central when compared with the utilization ratios ordered for BellSouth and GTE, and that the cable sizing factor reduction proposed by Carolina/Central would produce comparable distribution cable utilization ratios.

DISCUSSION

The Commission Order adopted the Public Staff's original recommendation in this regard; i.e., an 85% cable sizing factor input for distribution facilities was considered appropriate for Carolina/Central and a factor of 1.4 distribution pairs per household was found appropriate for all three ILECs. After considering Carolina/Central's Motion for Reconsideration, the Public Staff is now recommending a change in Carolina/Central's distribution cable sizing factor from 85% to 66% in order to achieve a utilization ratio comparable to that for GTE and BellSouth.

Carolina/Central commented that the reason the cable sizing factor was originally proposed at the very high level of 85% for distribution cable was to compensate for the BCPM default input of 2.0 pairs per household, and thus produce a reasonable cable utilization ratio. The high level of Carolina/Central's distribution cable sizing factor was acknowledged in the Commission Order. Specifically, the FLEC Order stated that "Carolina/Central's cable sizing factor for distribution, while higher, is near the upper end of the default range." The Commission ordered a modification of the GTE feeder cable sizing factor to replicate Carolina/Central's cable sizing factor input for feeder cable, but did not require the same replication for the Carolina/Central cable sizing factor for distribution cable. Instead, the Commission found that 65% was an appropriate cable sizing factor for GTE for distribution.

The Commission agrees with the Public Staff that there is no basis for a large difference between the utilization ratios of Carolina/Central and those of BellSouth and GTE. Changing the distribution cable sizing factor input from 85% to 66%, as proposed by Carolina/Central, will result in comparable utilization ratios.

CONCLUSIONS

The Commission concludes that it is appropriate to grant Carolina/Central's Motion for Reconsideration in this regard. Therefore, the Commission, through this Order, is amending its FLEC Order by incorporating a finding that the appropriate cable sizing factor input for distribution cable for Carolina/Central is 66%.

FINDING OF FACT NO. 6 - DEPRECIATION

Commission Order: The Commission concluded, in Section 3(k) on page 41 of the FLEC Order, that it is appropriate to require the ILECs to select economic lives and future net

salvage percentages that are within the Federal Communications Commission (FCC)-authorized ranges in order to comply with Criterion No. 5 of the FCC's prescribed ten cost-study criteria. For buildings, in which no range exists, the Commission concluded that the ILECs may use their proposed inputs.

Motions for Reconsideration:

GTE: GTE stated in its Motion for Reconsideration that it requests the Commission to reconsider its conclusion with respect to depreciation rates and allow the use of economic lives that GTE currently reflects in the financial results presented to investors and others. GTE stated that its depreciation rates are not regulated by the Commission and are, in some cases, higher than the ranges approved by the FCC.

AT&T: AT&T stated in its Motion for Reconsideration that BellSouth adjusted all economic lives and salvage percentage inputs that had previously been within the FCC ranges to the lowest possible inputs permitted in the FCC ranges and that its actions are inconsistent with the spirit, if not the intent, of the Commission Order. AT&T argued that BellSouth made these changes without being directed to do so by the Commission and without expressly bringing these changes to the attention of the Commission or the parties. AT&T asserted that BellSouth's inputs are unsupported by the record in this case and should not be permitted to stand.

INITIAL COMMENTS

BELLSOUTH: BellSouth argued that AT&T's "complaint" that BellSouth's revised economic lives and salvage values violate the spirit, if not the intent, of the FLEC Order is irrelevant. BellSouth stated that the FLEC Order does not give any indication that the revised inputs in question must fall at the top, middle, or bottom of the FCC-authorized ranges. The Commission left the determination of the appropriate economic lives and salvage values, within the FCC-authorized ranges, to the discretion of the ILECs. BellSouth stated that AT&T finds impropriety where none exists and that AT&T's Motion for Reconsideration should be dismissed.

AT&T: AT&T asserted in its comments that the FCC depreciation rates reflect the use of forward-looking technology and are unbiased toward any party. AT&T stated that GTE's Motion for Reconsideration on this issue should be dismissed since GTE's arguments are the same as presented in the hearing in this docket that the FCC rates do not reflect the costs actually incurred by GTE. AT&T concluded that the Commission correctly rejected GTE's reliance on depreciation rates that are too short and recover investment faster than an efficient competitor could in a competitive environment, and, accordingly, the Commission should deny GTE's request to reconsider its adoption of FCC-prescribed lives.

AT&T also asserted in its comments that the Commission should require BellSouth to comply with the FLEC Order, and modify only those depreciation lives (and costs) which were not forward-looking; i.e., outside the FCC-authorized ranges. AT&T claimed that BellSouth did not comply with the Commission Order and, instead, performed a wholesale rewrite of all of its proposed depreciation lives with the sole intent of maximizing costs that, ultimately, North Carolina consumers will bear, and without regard for its prior assertions that the "true" economic lives (and resulting costs) of its assets frequently lay elsewhere in the FCC-authorized ranges. AT&T argued that the Commission should require that BellSouth comply with its April 20, 1988, FLEC Order, and modify only those depreciation lives (and costs) which were not forward-looking (i.e. outside the FCC-authorized ranges).

NCCTA: The NCCTA recommended that the Commission deny BellSouth's, GTE's, and Carolina/Central's Motions for Reconsideration in their entirety. The NCCTA argued that the Commission Order reflects careful analysis of a mountain of written and oral evidence and that none of the issues raised by the ILECs in their Motions for Reconsideration raise new evidence or other matters which were not fully debated during the proceeding.

PUBLIC STAFF: The Public Staff stated that it believes that the FCC's requirement that depreciation rates must be within established ranges is clear and unequivocal. The Public Staff stated that no amount of evidence in this proceeding as to the economic lives currently used by GTE or any other ILEC alters the FCC's criterion.

REPLY COMMENTS

AT&T: AT&T asserted in its reply comments that BellSouth ignored the spirit and intent of the Commission Order when it selected, with no support, values in virtually every case at the bottom of the FCC ranges. AT&T argued that the net effect of BellSouth's quiet change was to increase BellSouth's universal service cost well beyond what the Commission intended, clearly exceeding the Commission's mandate. AT&T stated that BellSouth did not address the total lack of support offered by BellSouth for changing some of the economic lives and salvage values from BellSouth's original proposal to the lowest possible values in the FCC-prescribed ranges. AT&T asserted that BellSouth has offered no evidence for the quiet reduction nor any defense that its action was ordered by the Commission. AT&T stated that BellSouth's unwillingness to even address this issue speaks louder than words and that BellSouth understands that its actions are at odds with the Commission's intent. AT&T requested that the Commission direct BellSouth to submit a second revised version of BCPM 3.1 in which the inputs for depreciation are no lower than those offered by BellSouth in its cost model offered at the hearing.

DISCUSSION

The objective of the Commission's decision in this regard was to ensure that the economic lives and salvage values used in the FLEC studies would comply with the FCC's Criterion No. 5. The Commission's FLEC Order does not specifically state that the ILECs should only change those economic lives and salvage values outside of the FCC's prescribed ranges to amounts within the FCC's ranges. However, the Commission agrees with AT&T that BellSouth's revised economic lives and salvage values are not in the spirit of the Commission's Order. Additionally, the Commission notes that its FLEC Order implicitly intended to order the ILECs to revise only those rates that were not already in the FCC-authorized ranges to fall within the FCC-authorized ranges.

As Appendix B, Pages 1 through 5 shows, Carolina/Central originally proposed two FLEC studies: (1) Carolina/Central's preferred FLEC study with Carolina/Central's proposed projected lives and future net salvage values; and (2) their FCC-Based FLEC Study with projected lives and future net salvage values that all were at the lowest points of the FCC-authorized ranges. Therefore, when Carolina/Central filed their revised FLEC studies on April 30, 1998, the projected lives and future net salvage values were the same as those previously used as inputs in their FCC-Based FLEC Studies. BellSouth also proposed two FLEC studies: (1) BellSouth's preferred FLEC study with BellSouth's proposed projected lives and future net salvage values; and (2) their FCC-Based FLEC Study with projected lives and future net salvage values that were at varying points of the FCC-authorized ranges and a few outside of the FCC-authorized ranges. When BellSouth filed its revised FLEC study on April 30, 1998, it revised all of the projected lives and future net salvage values to fall at the lowest points of the FCC-authorized ranges. GTE, on the other hand, originally proposed one FLEC study reflecting a mix of projected lives and future net salvage values, some of which were lower than the FCC-authorized ranges, some of which were higher, and some of which fell within the FCC-authorized ranges. When GTE filed its revised FLEC study on April 30, 1998, it revised all of the projected lives and future net salvage values to the lowest possible rates within the FCC-authorized ranges. The Commission notes that with the April 30, 1998 filing of the revised FLEC studies, all parties reflected projected lives and future net salvage values that were at the lowest end of the FCC-authorized ranges.

Additionally, the Commission notes that BellSouth reflected in its April 30, 1998 filing an estimated life of 7.5 years for Special Purpose Vehicles which is outside of the FCC-authorized range of 12 years to 18 years for Special Purpose Vehicles.

Based on the evidence, the Commission finds that it is appropriate to grant AT&T's Motion for Reconsideration in this regard and require BellSouth to re-file its FCC-Based FLEC Study and revise only those projected lives and future net salvage values that were previously outside of the FCC-authorized ranges. The Commission also believes that it is appropriate to require GTE to re-file its FLEC study and revise only those projected lives

and future net salvage values that were originally outside of the FCC-authorized ranges. However, with regard to Carolina/Central, the Commission will not require them to revise their projected lives and future net salvage values as filed April 30, 1998 since Carolina/Central did not re-file their FLEC studies with projected lives and future net salvage values that were any different from those used in their original FCC-Based FLEC Studies.

Concerning GTE's Motion for Reconsideration, the Commission notes that GTE did not present any additional evidence to support its Motion. GTE simply is requesting that the Commission re-evaluate the evidence and change its decision to allow GTE to use its proposed economic lives and salvage values. The Commission does not believe that GTE's Motion should be granted because the Commission fully analyzed all of the evidence on this issue when it made its decision, and no new evidence has been presented on the issue.

CONCLUSIONS

The Commission concludes that it is appropriate to grant AT&T's Motion for Reconsideration in this regard and to include both BellSouth and GTE in the finding in this regard. GTE and BellSouth should re-file their FCC-Based FLEC Studies and revise only those projected lives and future net salvage values that previously were outside of the FCC-authorized ranges to any point within the FCC-authorized ranges. The Commission denies GTE's Motion for Reconsideration in this regard.

FINDING OF FACT NO. 7 - COST OF CAPITAL

Commission Order: In Section 3(n) on pages 46-54 of the FLEC Order, the Commission noted that the FCC required that the cost of capital or rate of return used in a state's FLEC study must be either the authorized federal rate of return on interstate services, currently 11.25%, or the state's prescribed rate of return for intrastate services. After concluding that the FCC's authorized interstate overall rate of return of 11.25% was inappropriate for purposes of this proceeding (for the reasons stated in the FLEC Order), the Commission stated its belief that the evidence contained in the testimony of the Public Staff with respect to the rate of return issue is the most credible evidence in the record in this proceeding. Therefore, the Commission found that the prescribed cost of capital for intrastate services in North Carolina which is reasonable and appropriate for use in determining the forward-looking economic costs associated with providing universal services is 9.94%, based on a capital structure consisting of 58% common equity and 42% long-term debt, a cost of equity equal to 11.80%, and a cost of long-term debt equal to 7.38%.

Motion for Reconsideration:

GTE: GTE argued in its Motion for Reconsideration that the Commission's conclusion that the cost of capital is equal to 9.94%, which is more than 100 basis points lower than the current authorized federal return of 11.25%, is not logical and contrary to sound financial and economic principles presented in this case. GTE contended that it presented substantial evidence that GTE's current cost of capital is well above the current interstate level of 11.25% and persuasive evidence that the cost of capital has increased rather than decreased.

GTE also stated that since the FLEC Order requires the depreciation rates to be within the ranges approved by the FCC, at the very least, the FLEC Order should be consistent and reflect a cost of capital of 11.25% in order to be consistent with the return approved by the FCC in its Universal Service Order.

INITIAL COMMENTS

AT&T: AT&T stated in its initial comments that the Commission rejected the use of the 11.25% rate of return, which was established by the FCC in 1990, because the 11.25% rate was based on historic, embedded costs. AT&T urged the Commission to reject GTE's attempt to recover costs of capital that do not reflect forward-looking economic costs. AT&T also noted that evidence at the hearing demonstrated, and the Commission concluded, that the FCC's cost of capital of 11.25% was inappropriate due to changes in market factors which have occurred since the FCC adopted the 11.25% rate of return such as a 242 basis point decline in Treasury bond rates, lower inflation rates, and lower allowed rates of return on equity for telephone companies. AT&T believes that based on such factors, the Commission properly concluded that the appropriate forward-looking cost of capital is 9.94%.

NCCTA: While NCCTA did not specifically address the cost of capital issue in its initial comments, NCCTA recommended that the Commission deny GTE's Motion for Reconsideration in its entirety because the Commission Order reflects careful analysis of a mountain of evidence and none of the issues raised for reconsideration produce new evidence or other matters which were not fully debated during the proceeding.

PUBLIC STAFF: The Public Staff stated in its initial comments that while the FCC's requirement that depreciation rates be within FCC established ranges is clear and unequivocal, the FCC expressly allowed for the use of a state-prescribed intrastate rate of return and there was substantial evidence to support the Commission's findings as to the forward-looking cost of capital in North Carolina. Therefore, the Public Staff stated that there is no inconsistency with respect to the Commission's findings on depreciation and cost of capital, as argued by GTE.

REPLY COMMENTS

No party filed Reply Comments on this issue.

DISCUSSION

As explained in the Commission Order, evidence in the record shows that current interest rates, current inflation rates, and the national average of the allowed returns on equity for telephone companies for the first nine months of 1997 are less than in 1990 when the FCC adopted the 11.25% overall rate of return. Despite this explanation in the FLEC Order, GTE simply argued in its Motion for Reconsideration that "GTE presented substantial evidence that GTE's current cost of capital is well above the current interstate rate of return of 11.25%" and that "the evidence presented by GTE is persuasive that the cost of capital is increasing rather than decreasing." These statements are the entire substance contained in GTE's Motion for Reconsideration as to why the Commission should authorize a 13.12% rate of return for GTE.

GTE also argued that since the FLEC Order requires depreciation rates to be within the ranges approved by the FCC, the FLEC Order should be consistent and allow the rate of return to be 11.25%. However, as discussed in the FLEC Order and pointed out in the initial comments of the Public Staff, the FCC required that depreciation rates must be within the FCC-authorized ranges, while the rate of return must be either the authorized federal rate of return on interstate services, currently 11.25%, or the state's prescribed rate of return for intrastate services. Thus, the FLEC Order is consistent with the FCC's requirements with respect to depreciation rates and rate of return.

CONCLUSIONS

The Commission concludes that it is appropriate to deny GTE's Motion for Reconsideration on the cost of capital or rate of return issue.

IT IS, THEREFORE, ORDERED as follows:

1. That BellSouth, Carolina/Central, and GTE shall file revised FLEC studies and spreadsheets reflecting the decisions in this Order no later than July 10, 1998.